



Natural Gas Prices



OUCS Consumer Fact Sheet

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Quick Facts:

- ◆ Wholesale natural gas prices are determined by the competitive market, and are very volatile.
- ◆ Monthly gas utility bills reflect the price of gas and the customer's usage.
- ◆ Budget billing and energy efficiency can help you manage large winter utility bills.

Natural Gas Prices: The Basics

Utilities purchase natural gas in a competitive wholesale market. As a result, the price of natural gas rises and falls based on supply and demand. For example, if the demand for gas increases and the supply does not keep pace, prices will increase. If, however, a warmer than usual December leads to lower than expected demand, the excess supply of gas is likely to decrease prices.

The last few years have illustrated the volatility of the natural gas market, as prices can sharply increase or decrease in a short period of time.

Natural gas prices were at record lows as the 1990s ended, while the winters of 1998-99 and 1999-2000 were warmer than normal. As a result of the decreased demand, fewer wells were drilled or pumped and the supply of gas decreased.

The continued growth in the economy at the time, however, led to increased demand for natural gas in 2000. With the supply unable to keep up due to diminished production, wholesale natural gas prices increased. Then, colder than average weather in winter 2000-01 increased demand even more and pushed gas prices to record highs. This resulted in extremely high gas bills throughout the Midwest.

During 2001, the gas supply increased due to the 2000-01 heating season's high prices. When combined with more average weather and demand, the increased supply led to more moderate price levels during the 2001-02 heating season.

What determines my monthly bill?

The amount of your gas bill depends on two key factors:

- (1) The amount of natural gas you use, and
- (2) The cost of providing the gas to you.

◆ Changes in usage

Most residential and small business natural gas consumers use it primarily for space heating. As a result, gas bills generally peak in the winter and reach their lowest levels in summer.

◆ Changes in cost

Natural gas service consists of three components:

- **Supply** (the gas itself),
- **Transportation** (interstate pipelines that bring gas to your local utility), and
- **Distribution** (the delivery of gas to homes and businesses in your utility's service area).

The cost of each component may fluctuate.

• Supply and Transportation Costs

Under federal law, gas utilities may purchase gas **supply** services from a number of competing businesses. As a result, the cost of gas supply is unregulated and determined by the competitive forces of the market place, as described above. The cost of interstate gas **transportation** is regulated by the Federal Energy Regulatory Commission (FERC).

Indiana law (IC 8-1-2-42(g)) allows utilities to recover, but not profit from, the actual cost of gas supply and gas transportation services purchased for their customers. This is done through **Gas Cost Adjustment (GCA)** filings that are reviewed by the OUCS and approved by the Indiana Utility Regulatory Commission (IURC). Once approved, the GCA factor is used in calculating customer bills. For more details, please refer to the OUCS's "Gas Cost Adjustments" Fact Sheet.

• Distribution Costs

Because gas utilities have a monopoly on delivering natural gas to customers in their geographic service areas, the price charged for gas **delivery**, is set by the IURC and not the market. The IURC sets gas delivery charges after a formal legal process involving the utility, the OUCS and possibly other intervenors.

Continued on Reverse...

How can I manage high winter gas bills?

◆ Energy efficiency = Lower utility bills

Using less gas will reduce your monthly bill. Start with the OUCC's "Tips to Save on Your Winter Energy Bills," available on the agency's Website (www.IN.gov/oucc) or by calling the OUCC's consumer services staff toll-free at 1-888-441-2494.

Consider adding insulation, using a programmable thermostat and making other energy investments in your home that will help pay for themselves by saving money on your utility bills.

More detailed information on energy efficiency is available from the U.S. Department of Energy at www.eere.energy.gov/consumerinfo or 1-800-363-3732.

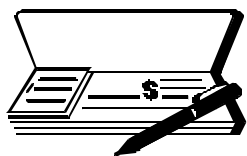
◆ Use the budget bill program

A consumer who participates in his or her utility's budget bill program knows, with certainty, how much he or she will owe each month. The OUCC encourages consumers to participate in budget billing, which reduces the very high bills that are typical during the winter months.

All natural gas utilities in Indiana are required to offer budget billing (sometimes called a "balanced" or "levelized" payment plan), which moves a portion of the consumer's winter payments to non-heating months when gas bills are typically lower. Programs may differ slightly among utilities, but all follow five basic steps:

- 1) Your gas usage and costs are estimated for a set period, typically a year.
- 2) This estimate is then divided by the number of months in the budget period.
- 3) You pay this set amount for gas service for each month of the budget period.
- 4) At the end of the budget period, the utility calculates the difference between the actual cost of your gas service and the amount that you paid under the budget program;
- 5) You are then either credited for any overpayment, or charged for any underpayment over a set period.

Overpayments are typically credited immediately. Underpayments are frequently collected over the next budget period. Your gas utility can provide more detailed information on its specific program and enrollment procedures.



Northern Indiana Public Service Company (NIPSCO) gas customers have other options under the utility's alternative regulatory plans. More information is available from the OUCC Website or by calling the OUCC's consumer services staff toll-free.

What if I find it difficult to pay higher gas bills?

◆ Arrange a Payment Plan

If you receive a bill that you may have difficulty paying, contact your utility immediately. Generally, utilities will work with customers in order to prevent the expense and time involved in disconnection. However, a consumer must:

- 1) Contact the utility as quickly as possible,
- 2) Keep any payment arrangement agreed upon with the utility, and
- 3) Immediately renew contact with the utility regarding any change that could affect the arrangement.

◆ Financial Assistance

Households with income at or below 125 percent of the poverty guidelines are eligible to receive benefits from the state's Low-Income Home Energy Assistance Program (LIHEAP) to maintain utility services during the heating season. These benefits are distributed through local Community Action Agencies (CAAs) on a first come, first serve basis.

For a listing of local CAAs and the counties they serve, contact the Indiana Family and Social Services Administration toll-free at (800) 622-4973 or on the Internet at www.IN.gov/fssa/families/housing/cap.html.

Many utilities offer their own energy assistance programs. Local township trustees can also be a source of assistance for consumers who face hardships making utility bill payments.

◆ Utility Disconnection

Any consumer who is receiving - or who is eligible for and has applied for - LIHEAP funds may not have his or her gas or electric utility service disconnected between December 1 and March 15, under Indiana law.

For more information on gas utility payment arrangement and disconnection procedures, please refer to the OUCC's "Utility Service Disconnection" Fact Sheet.

OUCC Efforts

As the state agency that represents utility consumer interests, the Indiana Office of Utility Consumer Counselor's mission is to promote consumer access to safe, reliable utility service at the lowest reasonable cost. The agency works to ensure that regulated retail gas utility rates and cost adjustments are prudent and reasonable.

The Indiana Office of Utility Consumer Counselor is the state agency that represents the interests of all utility consumers and the general public in matters related to the provision of utility services. The agency is active in proceedings before regulatory and legal bodies, and committed to giving consumers a voice in the creation of utility service policy.

